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[107 Senate Hearings]

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S. Hrg. 107-694

THE SBA FISCAL YEAR 2003 BUDGET
AND THE NOMINATION OF
MELANIE R. SABELHAUS TO BE
DEPUTY ADMINISTRATOR OF THE
U.S. SMALL BUSINESS ADMINISTRATION

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HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP
UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

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COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP

co. One of the things, as you are well aware, that is going on right now is our loan monitoring system. We think that affords us a great opportunity to do this type of oversight. Obviously, we are open to any opportunities to do a better job.

One of the things that we have had a lot of is very active conversation with our lenders on how we can do a better job in sharing information so that we can both serve our customers, which are those small businesses.

Chairman Kerry. Picking up on Senator Bennett's comments, which I completely agree with, I do not understand this definition moderately effective. We have got success stories out of 7(a) that pay the entire budget of your agency. I mean, Intel, Staples, Callaway Golf are not moderate successes.

Mr. Barreto. Absolutely, I agree with that 100 percent.

Chairman Kerry. Why do you call it moderately effective?

Mr. Barreto. It is not to infer that we have not had successes, because we have had successes. But our goal is to touch more of those 25 million small businesses, especially in the emerging markets. There is an incredible opportunity for us to touch more communities, to touch more of those small businesses and to identify the next Intel or the next Callaway Golf, which may come from a very different community.

So one of our goals is to expand our reach and to do more. We think that the SBA has done a great job in leveraging our resources, but we think that we can do better.

Chairman Kerry. Well, we agree that we could do more, and that sort of begs the question of why not fund the program to be able to do more? I mean, by SBA's numbers alone, 7(a) loans created 7,000 jobs in my State last year. In Georgia it created 11,273 jobs; in Minnesota, 7,400; and across the nation almost 300,000 jobs.

But when you figure the cost of the lending program, you do not even figure in any of those 300,000 jobs. You do not figure in the taxes those people are paying. You do not figure in any of the cost--I mean, this is a plus-plus, net plus program.

So to pick up on what Senator Bennett said, what is the rationale, in a time of economic distress, when we need stimulus, when the Administration was prepared to spend almost \$100 billion of stimulus, why cannot we find less than 1/10th of \$1 billion to make this program more broadly reached?

Mr. Barreto. Thank you, Senator Kerry. As I mentioned in my testimony, the original request is--well, the request is for \$85.36 million for our 7(a) loan program. This is actually an increase on what was requested last year. With the decrease in our subsidy rate, that would have provided a \$9.7 billion authority for loans.

The issue that we are challenged with is because of P.L. 107-100, that has caused the subsidy rate to go up and has decreased the loan authority that we currently have. But the intention was never to decrease the loan authority. Obviously, we did not anticipate the effect that that legislation, that passed at the end of the year, would have had on the original request.

So the intention has always been to maximize what we could do with that program. It has just been that the fact that the subsidy rate change due to that legislation has caused that program authority to go down.

However, having said that, I really want to make sure that I explain that we believe that there are options. Some of the

...e described today of some of the things that we can
 ...going to be at right around a \$4.85 billion
 ...y, but we believe that we are going to have at least \$2
 ...rollover from the program this year into next year.
 ...is going to get us pretty close to \$7 billion.
 ...We also think that we could experience an additional \$2
 ...billion authority in our 504 program, which is going to get us
 ...lose to \$9 billion.

As we talked about, or as I mentioned before, when you pull
 out those larger loans, we have been averaging somewhere around
 that \$9 billion level. So we think that we do have some
 options.

Chairman Kerry. To get to your \$9 billion is a little bit
 cute, if you do not mind my saying so. Because you are
 including the emergency \$75 million that I put into the defense
 appropriations last year, which is the STAR program, which was
 specifically put there to increase lending this year in the
 aftermath of the terrorist attacks, not to be included by you
 today as somehow meeting your mark.

So what you are doing is taking 2 years and trying to claim
 that it makes you good for the 1 year. It really does not deal
 with the shortfall for FY 2003. What are you doing, at this
 point, to market and use the STAR program that we put into the
 defense appropriations? It is not supposed to be included into
 this count for next year.

Mr. Barreto. I understand that, Senator.

Chairman Kerry. No you do not, because you are using it to
 say what a good job we are doing.

Mr. Barreto. I am saying that is one of the options that we
 might have at our disposal.

Chairman Kerry. Let me just say to you right now, it is not
 an option. OK? Let us take it off the table. It was not put
 there for that purpose. It was put there because we could not
 get what 63, now 64, U.S. Senators have cosponsored, which is
 the emergency bill for business. We are meeting with Andy Card,
 as you know I think, in a day or so to try to deal with that.

But do not start grabbing that money, which you guys did
 not even put in the budget, and say we are doing a great job.
 We put it there in order to be spent now, not extended over
 this period of time to compensate for finding cuts in FY 2003.

Mr. Barreto. We believe that with the legislation that was
 passed, it gets us to about \$13.88 billion for this year. We
 believe that we are only going to do about \$10.58 billion. So
 there will be an excess there.

But having said that, I agree that we need to do a better
 job of marketing the STAR program. That is a newer opportunity,
 and one of the things that we are doing is we are talking to
 our lending partners. We have a meeting coming up where we are
 bringing in our top 10 lending partners in the near future to
 talk to them about these kinds of opportunities. Because we
 think that there is a significant opportunity for small
 business through the STAR program.

Chairman Kerry. Well, we need to work with you. You are
 going to keep coming back to those figures. I think we need to
 really sit down and hopefully we can have that discussion with
 Mr. Daniels and with the Administration. It sounds like you are
 sort of trapped in the place they have put you and we cannot
 get you out of there today.

But I think the Committee is just unanimous in its feeling
 that this is a plus-plus program. This is not, as Senator